

OFFICE OF THE
ARIZONA
STATE
TREASURER



HON. DOUG DUCEY
TREASURER

INVESTMENT
PHILOSOPHY

SAFETY
before
LIQUIDITY
before
YIELD



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Inside the Vault

The Arizona State Treasurer's Quarterly Update

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Q4 2011

Arizona's Retirement Systems Study Committee

As part of Senate Bill 1609 the State Treasurer was named the Chairman of a 13-member study committee made up of the Board of Investment (BOI), State Legislators and Representatives from Arizona's retirement systems, which include the Arizona State Retirement System (ASRS), the Elected Officials' Retirement Plan (EORP), the Public Safety Personnel Retirement System (PSPRS) and the Corrections Officers Retirement Plan (CORP).



Committee members serving with the Treasurer include:

- Senator Linda Gray
- Senator Jack Jackson, Jr.
- Senator Steve Yarborough
- David Byers (ASRS)
- Hon. Beth Ford (BOI)
- Scott Smith (BOI)
- Representative Chad Campbell
- Representative Justin Olson
- Representative David Stevens
- Brian Tobin (PSPRS)
- Alan Maguire (BOI)
- Lauren Kingry (BOI)

The committee was given five specific areas of the pension systems to explore:

1. The feasibility and cost of transferring existing members and/or new members to a defined contribution plan;
2. Advantages and disadvantages of existing supplemental retirement plans and the feasibility of merging these plans to achieve maximum effectiveness;
3. The definitions of *compensation*, *average yearly salary* and *salary* as used by the plans to ascertain the actuarial effect of these definitions, particularly the ability and actuality of "spiking" compensation;
4. The advantages and disadvantages of the local board system, the agent multiple-employer public retirement system model and the feasibility of establishing a single employer public retirement system model;
5. Procedures, determinations and granting of accidental and ordinary disability retirements and the effect of local boards in providing adequate cost controls for these disability requirements.

An interim report of its findings and recommendations will be delivered to the Legislature, Governor and Secretary of State by December 31, 2011, with a final report due on December 31, 2012. All committee meeting are open to the public. Meeting times, dates, locations, as well as all materials, research and presentations, can be accessed online at www.aztreasurer.gov.

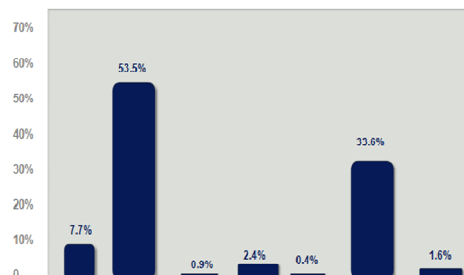
LGIP Pool 5: Short-term fund

AT A GLANCE

- \$1.28 Billion in assets with Net Asset Value at \$.9997 as of 9/30/2011.
- Diversified short-term fund similar to a prime money market fund.
- Goal is to keep daily liquidity in the 10% to 30% range.
- Continues to maintain the highest rating of AAAF/S1+ even with the U.S. Government downgrade by S&P.
- Overall maturities will be extended once interest rates increase.
- Weighted Average Maturity is 29 days.

Safety

Continues to receive highest rating from Standard & Poor's: AAAF/S1+

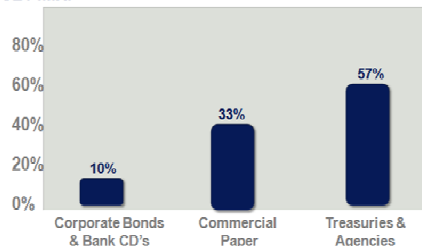


Liquidity

Weighted Average Maturity: 29 days on 9/30/2011

DURATION: 100% from 0-1 yrs

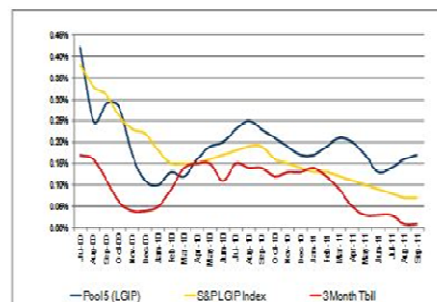
ASSET MIX:



Yield

.16% YTD

.07% YTD (S&P LGIP Index)

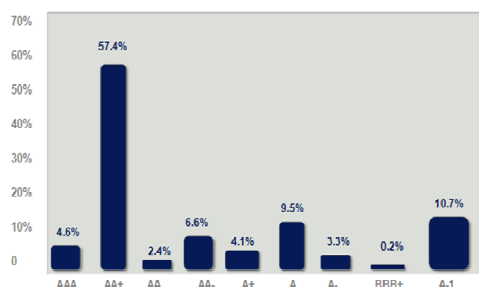


**Pool 5 YTD
Net Yield
has beaten its
benchmark by
9 basis points**

LGIP Pool 500: Medium-term fund

Safety

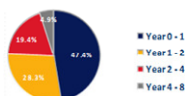
AA Weighted Average Rating



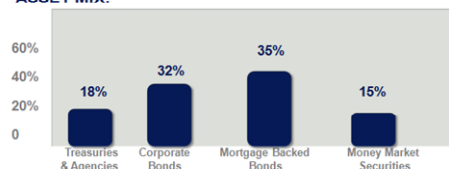
Liquidity

Effective Duration: 1.4 years on 9/30/2011

DURATION:



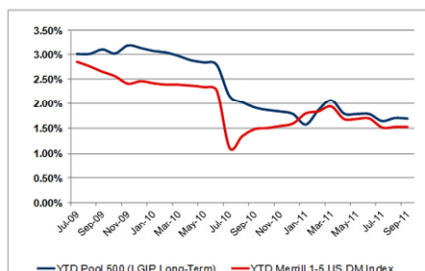
ASSET MIX:



Yield

1.70% YTD

1.53% YTD (Index)



**Pool 500 YTD
has beaten its
benchmark by
17 basis points**

AT A GLANCE

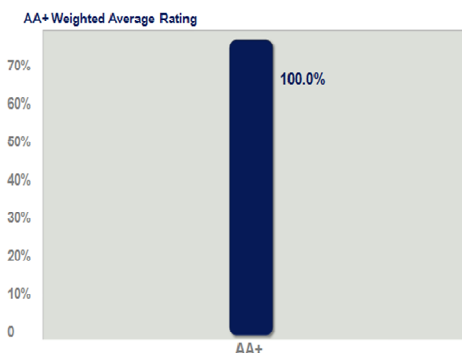
- \$216.3 Million in assets with Floating Net Asset Value at \$1.0388 as of 9/30/2011.
- Diversified fund containing Treasuries, Agencies, Corporate Bonds and Mortgages.
- The effective duration is 1.4 years.
- Keeping the fund short with 47% of the investments maturing under one year.
- Maximum exposure to any credit at 2.5%.
- Weighted Average Rating of all the securities is AA.

Pool 7 LGIP-GOV: Short-term fund

AT A GLANCE

- \$1.5 Billion Assets with Net Asset Value at \$1.00 as of 9/30/2011.
- Invested in highly liquid, low-risk securities that are backed by the full faith and credit of the U.S. Government.
- Disruptions in the overnight repurchase market have eased therefore the fund strategy will be shifting back into more overnight repurchase transactions.
- Weighted Average Maturity is 42 days.

Safety

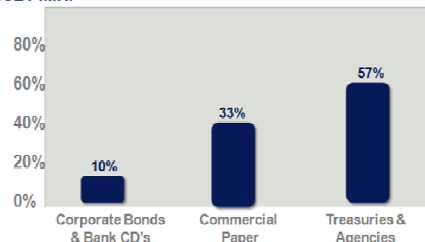


Liquidity

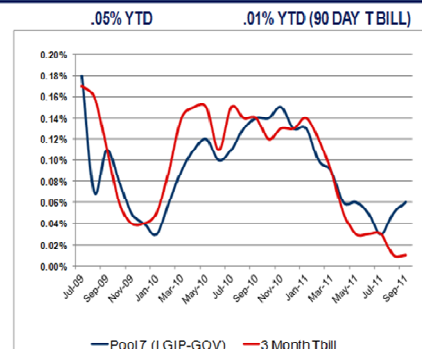
Weighted Average Maturity: 42 days on 9/30/2011

DURATION: 100% from 0-1 yrs

ASSET MIX:



Yield

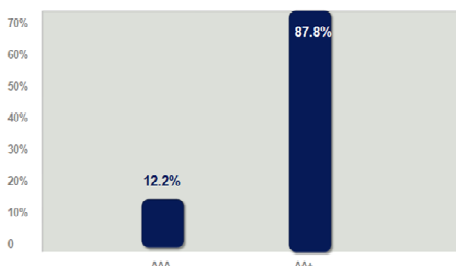


**Pool 7 YTD
Net Yield
has beaten its
benchmark by
4 basis points**

Pool 700 LGIP-GOV: Medium-term fund

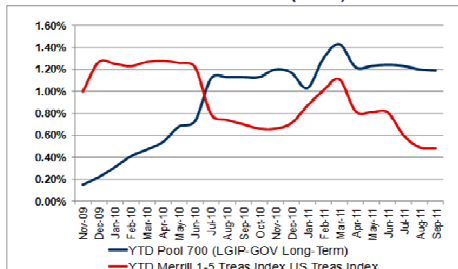
Safety

AA+ Weighted Average Rating



Yield

1.19% YTD 0.48% YTD (Index)



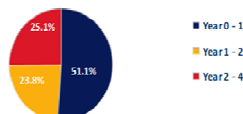
AT A GLANCE

- \$122.5 Million in assets with Floating Net Asset Value at \$1.0100 as of 9/30/2011.
- All securities are backed by the full faith and credit of U.S. Government including Treasuries, FDIC paper and GNMA Mortgages.
- The effective duration is 1.12 years.
- Keeping the fund short with 51% of the investments maturing under one year.
- Weighted Average Rating of all the securities is AA+.

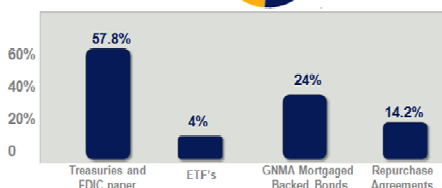
Liquidity

Effective Duration: 1.12 years on 9/30/2011

DURATION:



ASSET MIX:



**Pool 700 YTD
has beaten its
benchmark by
71 basis points**

OFFICE OF THE

ARIZONA
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View AZ's Daily Cash Balance at www.AZCheckbook.com

Empowerment Scholarship Accounts (ESAs)

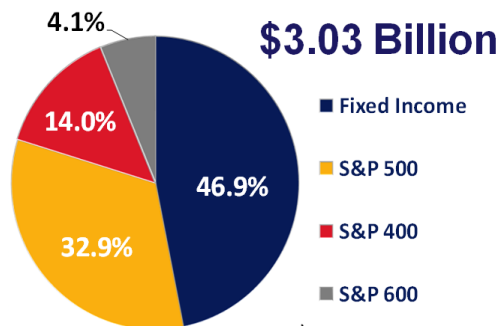
In conjunction with the Arizona Department of Education the Treasurer's Office has implemented an innovative new program for families across the State. The Empowerment Scholarship Accounts (ESAs) were created last legislative session by Senate Bill 1553, sponsored by State Senator Rick Murphy and Representative Debbie Lesko.



Students are awarded funding that totals 90 percent of the money a public school would have received had the student enrolled there. On average, schools receive between \$5,000 and \$6,000 per student, though special education students receive more funding because of the services they require.

In order to qualify, students must be an Arizona resident and identified as having a disability and either attended a public school for the first 100 days of the previous school year or received a School Tuition Organization scholarship the year prior. Disbursements during the first two quarters of the program have already reached **\$425,000.**

Land Endowment Asset Allocation



FY 2011 Financial Reports



The Treasurer's Office delivered its Fiscal Year 2011 Annual Audited Financial Statements to the Governor on October 31, 2011.

The entire report can be accessed online at www.aztreasurer.gov.

State Cash Flow

**FY 2012 Q1 Average
Monthly Cash Balance:**

+14% YOY

**July = \$1.2B
August = \$817M
September = \$778M**

FY 2012 Q1 Earnings +\$13.9 Million YOY

